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Before the
RECEPTEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

FCC MAIL ROCH

The Washington Utilities and Transportation Commission, Asotin Telephone Company, CenturyTel of Cowiche, Ellensburg Telephone Company, CenturyTel of Washington, Hat Island Telephone Company, Hood Canal Telephone Co., Inc., Inland Telephone Company, Kalama Telephone Company, Lewis River Telephone Company, Mashell Telecom, Inc., McDaniel Telephone Company, Pend Oreille Telephone Company, Pioneer Telephone Company, St. John, Co-operative Telephone And Telegraph Company, Tenino Telephone Company, The Toledo Telephone Co., Inc., United Telephone Company of the Northwest, Western Wahkiakum County Telephone Company, Whidbey Telephone Company, and Yelm Telephone Company

PETITION FOR AGREEMENT WITH DESIGNATION OF RURAL COMPANY ELIGIBLE TELECOMMUNICATIONS CARRIER SERVICE AREAS AT THE EXCHANGE LEVEL AND FOR APPROVAL OF THE USE OF DISAGGREGATION OF STUDY AREAS FOR THE PURPOSE OF DISTRIBUTING PORTABLE FEDERAL UNIVERSAL SERVICE SUPPORT

CC Docket No. 96-45

Comments of TCA, Inc

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Introduction

TCA, Inc. - Telcom Consulting Associates (TCA) hereby submits these comments in response to the FCC's Public Notice regarding the above captioned docket. TCA is a consulting firm which performs financial and regulatory services for over fifty rural telephone companies throughout the United States. The issue before the Commission impacts rural telephone companies in all areas of the country in that it contemplates fundamental changes to the way competition, and the portability of universal service support, is viewed in high cost, rural areas. These comments address the concerns of our clients.

Summary

TCA supports the petition of the Washington Utilities and Transportation Commission (WUTC) and the twenty rural telecommunications companies for agreement with designation of rural company eligible telecommunications carrier (ETC) service areas. TCA supports the petition on the condition that, along with the designation of service areas at the exchange level for rural telephone companies, the universal service support for rural telephone companies is disaggregated from the study area level to more narrowly-targeted areas. Without tying the service area proposal to the issue of disaggregated support, the petition should be rejected by the FCC¹.

¹ In this regard, TCA concurs with the rural company petitioners' position as it is stated in Footnote 2 to the petition.

Service Areas

TCA agrees with the petitioners' claim that designating smaller service areas for ETC status in rural telephone company areas better accomplishes the goal of promoting competition in rural, high cost areas of the country. It is vital to remember, however, that another more important goal is promulgated by the Federal Act: the preservation and enhancement of universal service². TCA has always considered the preservation and enhancement of universal service to be the most important aspect of the Federal Act for our clients, and rural telephone companies in general. In rural, high cost areas of the country, the "benefit" of local competition has been questionable, at best. TCA agrees with the petitioners that to the extent that local competition is beneficial to end users, rural America should be able to enjoy those benefits. TCA finds the petitioners' proposal laudable in this respect, and sees it as a good first step in bringing any possible benefit of local competition to rural consumers. However, along with designating smaller ETC service areas for rural telephone companies, it is imperative that universal service support is likewise disaggregated, as discussed further below.

Disaggregated Support

TCA believes that the petitioners' proposal to disaggregate universal service support (USS) is the most important issue. It is the current method of porting USS, not the size of the service area,

² 47 U.S.C. § 254(b)

which threatens competition and encourages "cherry picking" in high cost, rural service areas. Absent FCC approval of the petitioners' proposal, USS is portable based on the average support received throughout an incumbent LEC's study area³. This means that a business customer who resides a short distance from the LEC's central office, and thus is served by a relatively short loop, would generate for a competitive provider the same support as a residential customer who resides 10 miles from the central office. Obviously, making study area-wide average USS portable distorts the reality of what it costs to serve customers of varying geographic characteristics. Even with the supposed protection of Section 214's requirement that competitive carriers "offer" service throughout the rural company's study area, TCA is of the opinion that cherry picking can still occur. This makes it vital for the FCC to approve proposals such as the petitioners have offered. There must be a method, which fits the specific circumstances of each state and rural telephone company, that recognizes the differences in the cost to serve customers in rural America and targets USS accordingly.

TCA is in complete agreement with the petitioners' proposal as to the general principles of disaggregating USS. While TCA recognizes that the petitioners have utilized the best available information and methodology in order to disaggregate USS, we caution the FCC in approving any specific method for accomplishing the disaggregation of support. For example, the petitioners describe the use of the BCPM to disaggregate USS. TCA has reviewed the

³ 47 C.F.R. § 54.307 contemplates porting average USS to competitive carriers

petitioners' methodology and results, and while we agree that it is one way to accomplish disaggregation of USS, it may not be the only method - other methods may better fit the circumstances in other areas of the country. In addition, new versions of the BCPM, and other proxy models, are sure to emerge which perform better for rural telephone companies, and the assumptions implicit in the use of the BCPM could change⁴. Therefore, while TCA urges the FCC to approve of the petitioners' filing, we also ask that the FCC not approve of any specific methods, but only the general principles contained in the petition.

Both Proposals Must be Approved

TCA urges the FCC to approve the petition in its entirety, that is, both the proposal of designating ETC service areas other than study areas and the proposal of disaggregating the USS. If the issue of disaggregating the support is not approved, the petition should be rejected in its entirety. Allowing competitors to become ETCs for exchange level areas, and yet draw USS based on the incumbent's average study area-wide support would violate the Federal Act's mandate of preserving and advancing universal service. This is because the incumbent would lose support to the competitor based on the average cost of the study area, which includes high cost and lower cost customers. The customer who remains with the incumbent, and who costs more to serve than the customer captured by the competitor, in effect loses a portion of its

⁴ For instance, as part of the petitioners' disaggregation process, the monthly benchmark revenue per line proposed by the FCC (\$31 residential / \$51 business) is utilized. Changes to this input could change the results of the petitioners' methodology.

support. Therefore, the incumbent is left serving the high cost customer without benefit of the full USS that the customer actually generates, while the competitive provider receives more support than its customer actually generates. This situation creates an unlevel "playing field" which is tilted in favor of the competitive LEC, and threatens universal service. The proposals put forth by the petitioners would alleviate this concern, and at the same time advance the procompetitive goals of the Federal Act.

Small Company Impacts

TCA wishes to stress to the FCC the petitioners' statement that these proposals will in no way impact the amount of USS companies receive⁵. The petitioners' proposals consist of a methodology of targeting support, not calculating support. To this end, they utilize the BCPM to determine the areas within an exchange which need support. The petitioners' proposal does not use the support generated by the BCPM, but only uses the BCPM to allocate embedded support to wire centers and zones within those wire centers. Therefore, there is no impact on the support that rural companies receive. The only impact is that the support rural companies receive today is better targeted to where the support is needed.

⁵ Joint Petition at Page 2

Summary

TCA urges the FCC to approve the petition as filed. For reasons noted above, the petition must be approved in its entirety, or not at all. The petitioners have not only asked for approval and agreement for the designation of ETC service areas for rural telephone companies as something other than their study areas, they have also proposed a method to disaggregate USS which matches the ETC service area. TCA believes that it is the disaggregation of USS which is the key piece of this petition, and thus must be approved and agreed to by the FCC. Finally, TCA suggests that the FCC approve the petition's general principles regarding the disaggregation of support and ETC service areas, but not the specific methodology proposed by the petitioners.

Respectfully submitted,

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